INVESTIGATION SUMMARY (PUBLIC)
Val E. Southwick and VesCor Capital
February 6, 2008

SOUTHWICK AND VESCOR

1. Defendant, VAL E. SOUTHWICK, is an individual who at all pertinent times resided in Utah.

    a. SOUTHWICK'S last known address is 4367 Bob White Ct., Ogden, Utah 84403.

    b. SOUTHWICK is the president, owner, officer and director, or otherwise in control of approximately 150 corporations and limited liability companies, registered in Utah and Nevada, which comprise a network of entities referred to as "VesCor."

    c. Utah court records reveal that SOUTHWICK has been sued numerous times since 1985. In the mid-1980s SOUTHWICK was involved in an investment scheme with a Utah company, Summit Systems, Inc., in Vernal, Utah that failed. SOUTHWICK was sued by several individuals, and at one time had approximately $1.8 million in outstanding judgments against him.

BACKGROUND

2. VesCor Capital and/or VesCorp Capital consists of a network of approximately 150 different companies (collectively "VesCor"), all of which are related and connected

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through one common actor, VAL EDMUND SOUTHWICK, who acts as president, director and officer, or is otherwise in control of the companies. SOUTHWICK'S initials, V.E.S., are incorporated into many of the VesCor companies' names.

3. VesCor has its principal place of business in Ogden, Utah.

4. The VesCor network has been in existence for approximately 17 years. As VesCor's principal actor, SOUTHWICK borrowed money from banks, sophisticated investors and unsophisticated investors, and claimed to use that money to purchase, develop and lease or sell large residential, commercial and industrial real estate projects.

5. VesCor engaged in the offer and sale of promissory notes and interests in limited liability companies, all of which are encompassed by the definition of "security" under § 61-1-13(1)(x)(i) of the Utah Uniform Securities Act. Many of the securities offered by VesCor were not registered with the Utah Division of Securities.

6. In the past year, VesCor sold properties it owned or controlled in Butte, Montana, Henderson, Nevada and Park City, Utah, and claimed to have raised $95 million from those sales. None of this money was repaid to unsecured investors.

7. VesCor currently owns interests in properties near Las Vegas (APEX Industrial Park) and in Henderson, Nevada (Siena Office Park, Siena Vista, Odyssey), and San Diego, California (BayView Community Center).

8. Sales and solicitations of VesCor securities occurred primarily through licensed broker-dealers and agents, unlicensed financial advisors and through word-of-mouth referrals by investors. VesCor paid substantial commissions to these sales people, some as high as

10% of the principal investment up front and an additional amount at maturity or renewal of the investment.

9. Solicitations for sale of VesCor securities were also conducted by SOUTHWICK directly, and through several VesCor employees.

10. SOUTHWICK lured investors with promises of high returns, competent and trustworthy investment management, safe and secured investments and a perfect company operating history.

11. SOUTHWICK emphasized his membership and ecclesiastical roles in the Church of Jesus Christ of Latter Day Saints (LDS) during solicitation meetings with investors. SOUTHWICK showed his LDS Temple Recommend, or mentioned its existence, to several investors, and his office contains LDS "memorabilia," all of which appeared designed to breed a sense of trust between SOUTHWICK and investors.

12. SOUTHWICK was touted to investors as a respectable LDS gentleman, who was more concerned about the consequences of the after-life than those in this life if he lied to investors.

13. SOUTHWICK sold investments through promissory notes and equity interests in limited liability companies. In many instances, VesCor "borrowed" money from investors, giving them a promissory note and security agreement in return for their participation in a purported private placement. Most of the promissory notes had 36-60 month terms and promised returns of 10-20 percent interest per annum.

Promissory Notes

14. VesCor issued promissory notes to investors through at least five entities:

a. VesCorp Capital Corp.;

b. VesCor Capital, Inc.;

c. Vescor Capital, LLC;

d. VesCorp Capital IV-A, LLC;

e. VesCorp Capital IV-M, LLC.

15. Promissory note-holders were given the option of taking monthly payments of interest or allowing the monthly interest to accrue. Investors who selected the accrual option were generally given higher interest rates than those who took monthly interest payments.

16. Many of the promissory note-holders were elderly, non-accredited investors who invested the entirety of their retirement accounts in VesCor, or who borrowed against equity in their homes to invest. Many of the investors are now suffering financial hardships because they are no longer receiving interest payments or repayment of their principal balance.

17. In connection with their investments, promissory note investors were given loan documentation and brochures that detailed the company handling the investment and the real estate project underlying that investment. These documents were not always provided prior to investing.

18. Some investors were told that their money would be used to fund a particular real estate project, while others were told their money would be used to fund a variety of real estate projects.

19. All projects were represented to be very profitable and successful, and the investors were told that VesCor was actively developing, leasing, or selling the properties.

20. The loan documents and brochures provided to investors differed from one investor to the next, varying according to the underlying VesCor company issuing the note and the underlying real estate project. However, regardless of the company and/or investment project represented in the documentation, the brochures presented common promises, guarantees, and misrepresentations and omitted material facts.

Interests in Limited Liability Companies

21. Another investment offered by SOUTHWICK, through various entities relating to the APEX Industrial Park properties, was the purchase of interests in limited liability companies.

22. Investors with the ability to invest over $1 million were offered preferred equity interests in limited liability companies, APEX 1 through 6 and 23, LLCs and Vegas Vista VI, LLC. SOUTHWICK represented that these investments would be used to purchase and/or develop the properties, which would then be sold for a significant profit.

23. SOUTHWICK told these investors that their names would be listed on a first trust deed to the property, such that their investments were secured.

24. SOUTHWICK represented to the "preferred equity" investors that APEX 1 through 6 and 23, LLCs were seven individual and separate limited liability companies which had acquired seven lots with corresponding lot numbers in APEX Industrial Park. These lots comprise part of an area in the APEX Industrial Park commonly known as "APEX Commercial Center North." The investors who were solicited for this offering were promised secured investments with first position liens, high returns and short-term commitments.

25. SOUTHWICK represented that these properties were owned outright, without any encumbrances. However, the investments were in fact not in first position and were not secured, and many of the lots were encumbered by other debt.

26. SOUTHWICK represented to the "preferred equity" investors that Vegas Vista VI, LLC was a limited liability company which had purchased, or would purchase, lot 6 of the Vegas Vista tract in APEX Industrial Park. The purchase of this lot never occurred and investor funds were never repaid.

<u>The VesCor Ponzi Scheme</u>

27. The Utah Division of Securities believes that SOUTHWICK'S entities were the vehicle for an elaborate and complex Ponzi scheme, *i.e.*, SOUTHWICK used new investment money to pay interest payments and principal redemptions on older investments, which kept the scheme afloat for at least 17 years.

28. The Division further believes SOUTHWICK used investor funds for his own personal use, including, but not limited to, payment of his personal mortgage, personal massages, cash withdrawals, personal vacations, medical expenses, moving expenses and personal attorneys fees.

29. The VesCor Ponzi scheme imploded in May 2006 when VesCor ceased making interest payments to investors and stopped honoring withdrawal requests.

<u>Amounts Owed to Investors</u>

30. The total amount of debt VesCor owes to investors is uncertain:

    a. The Division was provided a chart by an attorney for the VesCor entities showing total debt of approximately $450 million. According to the chart, of the $450 million of debt, approximately $142 million is owed to unsecured investors, approximately $150 million is owed to secured investors, and approximately $155 million is owed to financial institutions.

b. In 2005, the Division received a draft copy of financial statements for the VesCor companies that showed $153 million in notes payable and $101 million in loans payable. The financial statements did not segregate secured debt from unsecured.

c. The current debt of VesCor is unclear because the Division has not been able to find any audited financial statements from the company, there are 150 entities in the VesCor network, and the company has repeatedly made different representations about its financial condition.

<u>Material Events</u>

31. Beginning in the year 2002, VesCor was involved in several significant events, all of which were material and should have been disclosed to investors:

a. In September 2002, the Utah Division of Securities concluded an investigation into the offer and sale of unregistered securities by VesCor in the State of Utah, which the Division believed to be in violation of § 61-1-7 of the Utah Uniform Securities Act. As a result of the investigation, SOUTHWICK and VesCor consented to the entry of an order by the Division of Securities which prohibited VesCor and SOUTHWICK from selling or offering unregistered securities in the state, further required VesCor and SOUTHWICK to become licensed before engaging in any further securities business, and prohibited VesCor and SOUTHWICK from employing any device, scheme, or artifice to defraud, making material misrepresentations or omissions, engaging in any act of fraud, and aiding, abetting, counseling, inducing, or causing any such behavior. The Order also required SOUTHWICK to disclose the existence of the Order "in connection with any future offer or sale of any security for a period of ten (10) years…." In addition, VesCor was required to make rescission offers to Utah investors who had been sold the unregistered securities. VesCor's and SOUTHWICK'S consent to the Order was signed by SOUTHWICK on September 18, 2002.

b. In October 2004, VesCor Capital Corporation, by its President Val SOUTHWICK, on behalf of its employees, directors, officers, agents, affiliates, members or successors agreed in a Non-Solicitation Letter directed to the Utah Division of Securities, to cease directly or indirectly engaging in any offers, sales, renewals, roll-overs and other transfers of securities directed to any person residing in Utah or made from within Utah to persons residing outside the state. SOUTHWICK further promised to make "full and final payment of principal and accrued interest…at the maturity date of each note or at an earlier call date," and promised not to give effect to automatic roll-over provisions contained in investment contracts without consent from the note-holder and notice to the Division and the note-holder. Identical letters were signed by two other VesCor employees and principals, on behalf of other VesCor entities. The Division has since discovered at least 43 violations of the agreements contained in the October 2004 Non-Solicitation letters by SOUTHWICK when he accepted new investments and rolled over or renewed existing investments after the date of the letters.

c. In July 2005, in response to its request, the Division received a draft copy of VesCor's audited financial statements for the years 2003 and 2004. The financial statements were prepared by Tanner LC and were provided to the Division by one of SOUTHWICK'S attorneys. The financial statements revealed that VesCor had negative equity of approximately $64 million as of December 31, 2003 and approximately $77 million as of December 31, 2004.

32. On May 31, 2006, VesCor and Val SOUTHWICK ceased making monthly interest payments to investors and ceased honoring repayment requests from most investors.

VCI Bankruptcy Proceedings

33. On May 30, 2007, VesCor Capital, Inc. (VCI), the most prominent promissory note issuer in the VesCor network, filed a voluntary petition for Chapter 11 bankruptcy in Utah (Case No. 07-22435).

34. Judge Glen E. Clark ordered the Chapter 11 bankruptcy to be converted to a Chapter 7 bankruptcy on November 8, 2007.

MISREPRESENTATIONS & OMISSIONS

35. In connection with the offer and sale of securities, SOUTHWICK made misleading statements to investors and failed to disclose certain material information upon which an investor could make an informed decision.

Misrepresentations

36. SOUTHWICK made these and other misrepresentations of material fact to investors:

a. Investments were collateralized by 200% of the value of the investment in assets of the company, including a large money market account at Centennial Bank.

b. The investor's name would be listed on a first trust deed to property so that the investor's investment was secure.

c. The investment was low risk.

d. It was impossible investors could lose their principal investment because they were secured by real property.

e. VesCor made commercial loans to property developers at a maximum loan-to-value ratio of 60-75%, which provided additional security for investments.

f. The investor's money would be used to purchase, develop, and lease or sell property.

Omissions

37. SOUTHWICK omitted to disclose to offerees and investors the following material information:

a. The September 2002 Stipulation and Consent Order entered against VesCor and SOUTHWICK by the Utah Division of Securities;

b. The October 2004 Non-Solicitation Letters sent to the Division by SOUTHWICK, Shawn Moore and Chris Layton;

c. VesCor was operating with a $64 million deficit in equity at the end of year 2003 and a $77 million deficit in equity at the end of year 2004, and the true financial condition at other times;

d. SOUTHWICK did not provide VesCor's financial statements to investors;

e. SOUTHWICK did not disclose the significant risk factors for the investment;

f. SOUTHWICK had an extensive litigation history, which was not disclosed to investors;

g. Investment funds would be commingled with other investment funds and used to pay SOUTHWICK'S personal expenses and/or make interest payments or satisfy redemption requests of other investors.

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Prepared by the Utah Division of Securities
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Questions can be directed to:
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